

MULTIMEDIA



UNIVERSITY

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 3, 2016/2017

### DBM5028 – BUSINESS FINANCE ( All sections / Groups )

29 MAY 2017  
9.00 a.m. – 11.00 a.m.  
( 2 Hours )

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#### INSTRUCTIONS TO STUDENT

1. This question paper consists of **10** pages with 2 sections.
2. Answer all questions.
3. For Section A, shade your answers on the OMR sheet provided.
4. For Section B, write your answers in the answer booklet provided.
5. The formula tables are given in the appendix.

**SECTION A: MULTIPLE CHOICE QUESTIONS (40 marks)***Instruction: Please shade your answers on the OMR sheet provided.*

1. After graduation, Florence accepted a job as a bank teller in Melaka. Her job falls under which one of the following areas of finance?
  - A. Corporate finance.
  - B. Financial institutions.
  - C. International finance.
  - D. Investments.
  
2. Which one of the following is a capital structure decision?
  - A. Establishing the preferred debt-equity level.
  - B. Selecting new machinery to purchase.
  - C. Setting the terms of sale for credit sales.
  - D. Setting the due date to pay suppliers.
  
3. Which one of the following statements about a limited partnership is correct?
  - A. All partners are treated equally.
  - B. All partners have their losses limited to their capital investment in the partnership.
  - C. The limited partner can take part in managing the business.
  - D. There must be at least one general partner.
  
4. Which one of the following functions should be assigned to the treasurer rather than the controller?
  - A. Cash management.
  - B. Cost accounting.
  - C. Financial accounting.
  - D. Tax management.
  
5. Which one of the following statements is correct concerning a firm's fixed assets?
  - A. The book value is equal to the market value minus the accumulated depreciation.
  - B. The book value is the greater of the initial cost or the current market value.
  - C. The market value is affected by the accounting method selected.
  - D. The market value is the expected selling price in today's economy.

**Continued...**

6. Which one of the following terms is defined as the total tax paid divided by the total taxable income?
- Absolute tax rate.
  - Average tax rate.
  - Marginal tax rate.
  - Variable tax rate.
7. Which one of the following is included in net working capital?
- 12-year bonds issued to the general public.
  - Dividends paid to stockholders at year end.
  - Invoice from a supplier for inventory purchased.
  - Loan on a building payable over the next twenty years.
8. Referring to the tax table below, calculate the firm's tax liability if Gamuda Teguh earns taxable income of RM55,000.

Taxable income		Tax Rate
RM	RM	
0	50,000	15%
50,001	75,000	25%
75,001	100,000	34%

- RM8,250
  - RM8,750
  - RM13,750
  - RM26,250
9. Syarikat Harapan Bangsa's balance sheet reported beginning net fixed assets of RM288,000 and ending net fixed assets of RM312,000. The depreciation expense for the year is RM34,000 and the interest expense is RM7,700. What is the amount of the net capital spending?
- RM28,000
  - RM31,700
  - RM58,000
  - RM65,700
10. By definition, a bank that pays simple interest on a savings account will pay interest \_\_\_\_\_.
- on both the principal amount and the reinvested interest
  - only at the beginning of the investment period
  - only if all previous interest payments are reinvested
  - only on the principal amount originally invested

Continued...

11. Isabelle wants to invest RM10,000 for 3 years. Which one of the following will provide her with the largest future value?
- A. 5 percent interest, compounded annually.
  - B. 5 percent interest, compounded semi-annually.
  - C. 5 percent interest, compounded quarterly.
  - D. 5 percent simple interest.
12. Johan earned RM200 in interest on his savings account last year. He has decided not to withdraw the interest so that he can earn interest on the RM200 this year. The interest Johan earns this year on this RM200 is referred to as \_\_\_\_\_.
- A. compound interest
  - B. discounted interest
  - C. interest on interest
  - D. simple interest
13. Karyn pays 1.5 percent per month interest on her credit card account. When her monthly rate is multiplied by 12, the resulting answer is referred to as the \_\_\_\_\_.
- A. annual percentage rate
  - B. compounded rate
  - C. effective annual rate
  - D. simple rate
14. Which one of the following statements is true concerning annuities?
- A. An annuity with payments at the beginning of each period is called an ordinary annuity.
  - B. All else equal, a decrease in the number of payments increased the future value of an annuity due.
  - C. All else equal, an increase in the discount rate decreases the present value and increases the future value of an annuity.
  - D. All else equal, an ordinary annuity is more valuable than an annuity due.
15. Leonard borrowed RM5,000 today. The loan agreement requires him to repay RM5,175 in one lump sum payment one year from now. This type of loan is referred to as a(n) \_\_\_\_\_.
- A. amortised loan
  - B. compound interest loan
  - C. interest-only loan
  - D. pure discount loan

**Continued...**

16. \_\_\_\_\_ is the principal amount of a bond that is repaid at the end of the loan term.
- A. Coupon
  - B. Face value
  - C. Market price
  - D. Yield-to-maturity
17. The current yield on a bond is equal to the annual interest divided by \_\_\_\_\_.  
A. current market price  
B. current par value  
C. issue price  
D. maturity value
18. Mimosa Packaging is issuing a 8-year, unsecured bond. Based on this information, you know that this debt can be described as a \_\_\_\_\_.  
A. bearer form bond  
B. debenture  
C. note  
D. registered form bond
19. Which one of the following terms applies to a bond that initially sells at a deep discount and pays no interest payments?  
A. Corporate.  
B. Income.  
C. Put.  
D. Zero coupon.
20. The inflation premium \_\_\_\_\_.  
A. compensates investors for expected price increases  
B. is inversely related to the time to maturity  
C. remains constant over time  
D. rewards investors for accepting interest rate risk
21. Which one of the following types of securities has no priority in a bankruptcy proceeding?  
A. Common stock.  
B. Convertible bond.  
C. Preferred stock.  
D. Senior debt.

Continued...

22. Which one of the following generally pays a fixed dividend, receives first priority in dividend payment and maintains the right to a dividend payment, even if that payment is deferred?
- A. Cumulative common.
  - B. Cumulative preferred.
  - C. Non-cumulative common.
  - D. Non-cumulative preferred.
23. The price of a stock at Year 10 can be expressed as \_\_\_\_\_.
- A.  $D_0 / (R + g)^{10}$
  - B.  $D_0 (1 + R)^{10}$
  - C.  $D_{10} / (R - g)$
  - D.  $D_{11} / (R - g)$
24. Which one of the following must equal zero if a firm pays a constant annual dividend?
- A. Book value per share.
  - B. Capital gains yield.
  - C. Dividend yield.
  - D. Total return.
25. Which one of the following statements is correct?
- A. All classes of stock may not have equal voting rights per share.
  - B. Common shareholders elect the corporate directors while the preferred shareholders vote on mergers and acquisitions.
  - C. Dividends are tax-free income for individual investors.
  - D. Dividends must be paid out to common shareholders first.
26. Discounted cash flow valuation is the process of discounting an investment's \_\_\_\_\_.
- A. assets
  - B. costs
  - C. future cash flows
  - D. liabilities

**Continued...**

27. Which one of the following indicates that a project is expected to create value for its owners?
- Net present value less than zero.
  - Payback period shorter than the requirement.
  - Positive average accounting return.
  - Profitability index less than 1.0.
28. \_\_\_\_\_ is generally considered to be the best form of analysis if you have to select a single method to analyse a variety of investment opportunities.
- Average accounting return
  - Net present value
  - Payback period
  - Profitability index
29. Payback is best used to evaluate which type of projects?
- High-cost, long-term.
  - High-cost, short-term.
  - Low-cost, long-term.
  - Low-cost, short-term.
30. Which one of the following analysis methods ignores the time value of money?
- Average accounting return.
  - Discounted payback period.
  - Net present value.
  - Profitability index.
31. Which one of the following commences on the day inventory is purchased and ends on the day the payment for that inventory is collected? Assume all sales and purchases are on credit.
- Accounts receivable period.
  - Cash cycle.
  - Inventory period.
  - Operating cycle.
32. Which one of the following activities is a source of cash?
- Decreasing accounts receivable.
  - Decreasing long-term debt.
  - Increasing inventory.
  - Increasing fixed assets.

Continued...

33. Which of the following are inversely related to increases in a firm's current assets?
- I. Carrying costs
  - II. Re-order costs
  - III. Restocking costs
  - IV. Shortage costs
- A. I and II.
  - B. I, II and III.
  - C. II, III and IV.
  - D. I, II, III and IV.
34. Which one of the following actions is indicative of a restrictive short-term financial policy?
- A. Expanding the number of inventory items carried.
  - B. Granting decreasing amounts of credit to customers.
  - C. Increasing the firm's investment in the current accounts.
  - D. Investing relatively large amounts in marketable securities.
35. Nakhoda Permai's financial statements reported sales for the year of RM123,000 and cost of goods sold of RM73,000. The firm carries an average inventory of RM6,000 and has an average accounts payable balance of RM5,500. What is the inventory period?
- A. 17.80 days.
  - B. 27.50 days.
  - C. 30.00 days.
  - D. 32.70 days.
36. Which one of the following is a speculative motive for holding cash?
- A. Buying extra inventory because a key supplier offered a special one-time discount.
  - B. Needing to purchase a new equipment to replace the existing one.
  - C. Paying a RM500 bonus to all employees at year end.
  - D. Paying the annual insurance premium on the firm's assets.
37. Which one of the following best defines cash concentration?
- A. Combining a firm's bills so that disbursement cheques are only mailed monthly.
  - B. Combining all of a firm's receipts into one bank deposit.
  - C. Combining cash from multiple banks into a firm's main bank accounts.
  - D. Combining the whole week's worth of cash receipts into one bank deposit.

Continued...

38. Which one of the following is a disbursement account into which funds are transferred from a master account only as the funds are needed to cover cheques presented for payment?
- Cash clearing account.
  - Cash concentration account.
  - Lockbox account.
  - Zero-balance account.
39. Which one of the following best defines the economic order quantity (EOQ)?
- Minimum amount that must be ordered to obtain discount.
  - Minimum size of an order needed to qualify for free shipping.
  - Number of items that are sold on average each month.
  - Restocking quantity that minimises the total cost of inventory.
40. As of Friday morning, the ledger balance and the available balance for Orlando Florist was RM10,000. During the day, the firm wrote 2 cheques in the amount of RM250 and RM330. The firm also deposited a cheque for RM670. What is the amount of the collection float as of the end of the day?
- RM90
  - RM670
  - RM1,250
  - RM10,670

**SECTION B: STRUCTURED QUESTIONS (60 marks)**

Instruction: Please write all your answers in the answer booklet provided.

**QUESTION 1**

- (a) Kayden has RM7,795 today in his savings account. How long must he wait for his savings to be worth RM8,800 if his bank pays 3.5 percent interest? (3 marks)
- (b) Bank Amanah pays 4 percent simple interest on its savings account balances, whereas Bank Bakti pays 4 percent compounded annually. If Aven made a RM10,000 deposit in each bank, how much more money would she earn from Bank Bakti at the end of 5 years? (5.5 marks)

**Continued...**

- (c) Jaya Precision just borrowed RM120,000 to finance the new car purchase for its company director. The bank charges an interest rate of 5.2 percent.
- How much will the monthly loan payment be if the loan is for 5 years? (3.5 marks)
  - If Jaya Precision can only allocate RM2,500 per month towards paying the monthly instalment, can the company afford to buy the car? (0.5 mark)
  - What is the effective annual rate on this loan? (2.5 marks)

[TOTAL 15 MARKS]

### QUESTION 2

- (a) Jefferson Bhd. is planning to issue a 15-year, 8 percent coupon bonds that pay coupons semi-annually. The market yield on similar bonds is 6 percent.
- What is the bond price? (5 marks)
  - What is the current yield for investors? (2.5 marks)
- (b) Paper ‘n’ Sand Corporation is planning to build a new factory due to its business expansion. The firm wants to raise the RM2 million needed by selling zero coupon bonds that have 10 years to maturity. The yield to maturity on these bonds is 6.8 percent.
- Assume semi-annual compounding, what price should Paper ‘n’ Sand Corporation charge for these bonds? (3 marks)
  - How many bonds must the company sell to raise RM2 million? (2 marks)
  - If the price of this bond becomes RM600 next year, what is the percentage of price increase? (2.5 marks)

[TOTAL 15 MARKS]

### QUESTION 3

- (a) Sakura Printing just paid an annual dividend of RM2.50. The company has increased its dividend by 3.5 percent a year for the past five years and expects to continue doing so. The required return on this stock is 12 percent.
- What is Sakura Printing’s stock worth today? (3.5 marks)
  - What is the firm’s stock worth three years from now? (4 marks)
  - If the maximum you are willing to pay to buy the stock is RM28 per share, would you buy Sakura Printing’s stocks today? (1 mark)

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- (b) Bizzy Buzz Corporation's stock is selling for RM25 a share based on a 10 percent rate of return. What was the amount of the next annual dividend if the dividends are increasing by 2 percent annually? (3 marks)
- (c) Marina Fishery just paid an annual dividend of RM0.80. The company's stock is selling for RM15.60 a share and has a total return of 11 percent. What is the dividend growth rate? (3.5 marks)

**[TOTAL 15 MARKS]**

#### **QUESTION 4**

- (a) Zooper Engraving is considering two mutually exclusive projects with an initial cost of RM200,000 each. The projects are expected to produce cash flows as shown in the following table.

Year	0	1	2	3	4
Project Zern (RM)	200,000	80,000	90,000	100,000	80,000
Project Miing (RM)	200,000	60,000	80,000	120,000	70,000

- (i) Calculate the payback period for both projects. (5 marks)
- (ii) Which project would you recommend? (1 mark)
- (iii) List two (2) disadvantages of payback period. (2 marks)
- (b) Magic Wonders is considering purchasing new machinery costing RM120,000. The machinery will be depreciated on a straight line basis to a zero book value over the four-year life of the project. The projected net income for the four years is shown in the table below.

Year	1	2	3	4
Net income (RM)	10,600	12,400	14,100	16,900

- (i) What is the average accounting rate of return (AAR)? (6 marks)
- (ii) If the company targets 20% AAR, should the company accept or reject the projects? (1 mark)

**[TOTAL 15 MARKS]**

**End of Page.**

## Appendix

### I. The cash flow identity

Cash flow from assets = Cash flow to creditors (bondholders)  
                           + Cash flow to stockholders (owners)

### II. Cash flow from assets

Cash flow from assets = Operating cash flow  
                           - Net capital spending  
                           - Change in net working capital (NWC)

where

Operating cash flow = Earnings before interest and taxes (EBIT)  
                           + Depreciation - Taxes

Net capital spending = Ending net fixed assets - Beginning net fixed assets  
                           + Depreciation

Change in NWC = Ending NWC - Beginning NWC

### III. Cash flow to creditors (bondholders)

Cash flow to creditors = Interest paid - Net new borrowing

### IV. Cash flow to stockholders (owners)

Cash flow to stockholders = Dividends paid - Net new equity raised

### I. Symbols

PV = Present value, what future cash flows are worth today

FV<sub>t</sub> = Future value, what cash flows are worth in the future

r = Interest rate, rate of return, or discount rate per period typically , but not always, one year

t = Number of periods typically , but not always, the number of years

C = Cash amount

### II. Future value of C invested at r percent per period for t periods

FV<sub>t</sub> = C × (1 + r)<sup>t</sup>

The term (1 + r)<sup>t</sup> is called the *future value factor*.

### III. Present value of C to be received in t periods at r percent per period

PV = C/(1 + r)<sup>t</sup>

The term 1/(1 + r)<sup>t</sup> is called the *present value factor*.

### IV. The basic present value equation giving the relationship between present and future value is

PV = FV<sub>t</sub>/(1 + r)<sup>t</sup>

### I. Symbols

PV = Present value, what future cash flows are worth today

FV<sub>t</sub> = Future value, what cash flows are worth in the future at time t

r = Interest rate, rate of return, or discount rate per period typically , but not always, one year

t = Number of periods typically , but not always, the number of years

C = Cash amount

### II. Future value of C invested per period for t periods at r percent per period

FV<sub>t</sub> = C × [(1 + r)<sup>t</sup> - 1]/r

A series of identical cash flows is called an annuity, and the term [(1 + r)<sup>t</sup> - 1]/r is called the *annuity future value factor*.

### III. Present value of C per period for t periods at r percent per period

PV = C × {1 - [1/(1 + r)<sup>t</sup>]}/r

The term {1 - [1/(1 + r)<sup>t</sup>]}/r is called the *annuity present value factor*.

### IV. Present value of a perpetuity of C per period

PV = C/r

A perpetuity has the same cash flow every year forever.